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SITREP/13 Dec 1983

Yugoslavia

Belgrade has made some progress in recent discussions on refinancing 1984 obligations with both its commercial and government creditors. Several sources of the US Embassy report that last week Western bankers offered to refinance all 1984 commercial maturities and extend the payments over seven years with four years' grace. A 90-day moratorium on payments beginning on 1 January also was granted to give Yugoslavia and its private and official creditors time to work out the package. The bankers, however, rebuffed the IMF request for new loans of \$300 million to \$400 million, on grounds that Yugoslavia does not need new money in 1984. [REDACTED]

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Completion of the package will depend on conclusion of an IMF standby agreement and a refinancing agreement with Western governments. An IMF team is currently in Belgrade to discuss arrangements for next year's standby arrangement and reportedly will need at least one more meeting in early January before being in a position to offer a letter of intent. Reaching a final accord with commercial banks could be further delayed if the IMF continues to insist on banks providing new money to Yugoslavia.

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Government creditors are tentatively scheduled to resume talks with Yugoslavia and the IMF next month. At an 18 November

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[redacted]

meeting, Belgrade informally requested \$1 billion for 1984--half in new funds and half in debt relief. No action was taken on this request but the participants did agree to begin two discussions in January. One group, headed by the French, will handle debt refinancing while the second, chaired by the IMF, will deal with Yugoslavia's more general economic difficulties. The two groups will eventually merge under the guidance of the Swiss. [redacted]

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The tentative format accommodates Yugoslavia's desire to avoid a formal meeting of the Paris Club, but official creditors are likely to follow Club guidelines for debt rescheduling. The governments are unwilling to repeat the special financial rescue package for this year, and Belgrade's request for new funds seems certain to meet stiff resistance from some governments. [redacted]

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Poland

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[redacted] last month's semi-annual visit to Poland of the International Economic Committee--a group of bankers which monitors Polish economic performance under the bank rescheduling agreements--was routine. Finance Minister Nieckarz said that two variants of the 1984 financial plan had been prepared depending on the outcome of negotiations with Western government creditors. [redacted]

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[redacted] if the government creditors provide substantial new credits to finance Polish imports, exports will increase 17 percent, while an export gain of only 10 percent is planned if credits are not available. [redacted]

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The first negotiations with the banks for further debt relief are set to begin in Vienna on 14 - 15 December. [redacted]

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[redacted] the International Working Group representing the banks will propose rescheduling under one agreement all of the remaining principal payments due under original contracts. The banks will propose the same terms as the 1983 agreement--rescheduling of 95 percent of principal and relending to Poland 65 percent of interest payments as trade credits. [redacted]

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Warsaw expects the meeting will be unstructured, indicating that Poland will not propose specific terms. Nieckarz said that a major goal will be to free \$500 million in deposits that are tied up as prepayments for letters of credit. [redacted] several negotiating sessions will be needed, although agreement should

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take less than the five months required in 1983.

[REDACTED]

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The Paris Club has tentatively scheduled its next session on Poland for early January. At the previous meeting on 16-17 November, Polish officials attended for the first time since martial law was imposed in 1981. The Poles pressed for generous, multiyear debt relief, IMF membership, and new credits. The creditors replied that IMF membership and new credits are outside the Paris Club's purview, and they insisted that Poland cover payments due under the 1981 agreement before debt relief for subsequent years can be concluded.

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[REDACTED]

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Hungary

[REDACTED]

Hungarian

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bank officials are projecting external borrowing requirements of approximately \$900 million in 1984. Budapest currently is in the process of lining up funding sources for next year. Government officials already have requested that commercial creditors maintain their existing levels of short-term exposure and are considering arranging a bankers' acceptance syndication in early 1984 to finance commodity imports from the West.

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[REDACTED] Budapest will approach only West European and Arab banks and avoid US banks given their less favorable response to past loans. US bankers generally believe that Hungary will have increasing difficulty in meeting its financial commitments through 1985 and [REDACTED]

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[REDACTED] that Budapest will have to request a debt restructuring in either 1984 or 1985. [REDACTED]

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[REDACTED]

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[REDACTED]

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East Germany

Party Chief Honecker told a central committee session in early December that East Germany ran a "considerable" surplus with nonsocialist countries the first ten months of this year, but [ ] Western banks remain

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cautious about increased lending to East Berlin. [ ]

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[ ] even Austrian

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and West German bankers--usually among the most receptive to requests from East Berlin--are not eager to increase lending to East Germany. [ ]

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[ ] as of early December East Berlin had not formally requested a new "jumbo" loan from Bonn, despite persistent press reports that such a request has been made. Some lower level officials apparently unofficially requested, however, sizable credits to be used for the purchase of FRG iron and steel products. Several senior West German officials have stated publicly that Bonn is not satisfied with the concessions made by East Berlin following the July loan and that concessions promised for any new credit must be guaranteed in writing. Other intra-German economic relations are preceeding relatively normally [ ] the West German Ministry of Finance has recommended approval of more trade credits and in mid-November the two sides agreed on extension of their post and telecommunications agreement that should net East Berlin DM 300 million by yearend. [ ]

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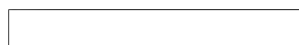
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